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TO: Docket Control

FROM: Deborah R. Scott
Director
Utilities Division

Barbara W. Tasker for

AZ CORP COMMISSION
DOCUMENT CONTROL

DATE: February 9, 2001

RE: STAFF REPORT FOR TUCSON ELECTRIC POWER COMPANY'S
APPLICATION FOR APPROVAL OF THE SALE OF ASSETS (DOCKET NO.
E-1933A-00-0550)

Attached is the Staff Report for the application of Tucson Electric Power Company, for approval of the sale of assets. Staff recommends approval of the transaction without a hearing.

DRS:JMR:jbc

Originator: Joel M. Reiker

Attachment: Original and Ten Copies

Arizona Corporation Commission
DOCKETED

FEB 13 2001

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**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**


**TUCSON ELECTRIC POWER COMPANY
DOCKET NO. E-01933A-00-0550**

**APPLICATION FOR APPROVAL
OF THE SALE OF ASSETS**

FEBRUARY 9, 2001

STAFF ACKNOWLEDGEMENT

The Staff Report for Tucson Electric Power Company, Docket No. E-01933A-00-0550, was the responsibility of the Staff member listed below. Joel M. Reiker was responsible for the review and analysis of the Company's application for approval of the sale of assets.



Joel M. Reiker
Senior Rate Analyst

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Introduction

On July 26, 2000, Tucson Electric Power Company ("TEP" or "Company") filed an application seeking approval of the sale of the real property and improvements collectively referred to as TEP's Headquarters ("the Headquarters"), located at 220 West Sixth Street, Tucson, Arizona, to Telecommunications Asset Management Company, Inc. ("TAMPCO"), a California Corporation. On November 8, 2000, TEP filed an amended application indicating that TAMPCO would no longer be purchasing the Headquarters. Instead, the Arizona Board of Regents has agreed to purchase the Headquarters on behalf of the University of Arizona ("U of A") in an all cash transaction.

TEP is a subsidiary of UniSource Energy Corporation. TEP is an Arizona Corporation with its principal office located in the City of Tucson, Arizona. TEP provides electric service to approximately 334,168 customers in the city of Tucson and surrounding Pima County area and Fort Huachuca in Cochise County. TEP generated operating revenues of \$811 million and net income of \$73 million in 1999.

Public notice of the application was published in the January 15, 2001 edition of *The Arizona Daily Star*.

Background

The Headquarters is being sold as part of TEP's plan to improve "the adjacency of its corporate service to its operating units." Accordingly, TEP has moved several of its service groups from the Headquarters to its service center located on East Irvington Road. In addition, TEP has moved a smaller administrative group to a downtown location, which is closer to various government offices and courts than the old headquarters. TEP also asserts that moving certain groups to downtown locations will continue to support the revitalization of downtown Tucson.

The Company will not be transferring its Certificate of Convenience and Necessity ("CC&N"). However, because the Headquarters was considered necessary and useful in TEP's performance of its duties to the public in its last rate case, TEP is requesting approval of the sale pursuant to A.R.S. § 40-285.A.

In addition to Commission approval, the Arizona Board of Regents, on behalf of the U of A, must authorize the purchase. Authorization of the purchase by the Arizona Board of Regents was signed on November 30, 2000, and provided to Staff on December 4, 2000. TEP and the U of A are now ready to close the transaction. Accordingly, TEP has requested that this matter be considered by the Commission on an expedited basis.

The purchase price of The Headquarters is \$6,900,000, compared to a net book value of \$5,700,000, this represents a pre-tax gain of \$1,200,000. The Company estimates the taxes on the transaction to be approximately \$480,000, and recaptured depreciation is estimated to be \$600,000, resulting in a net book gain of approximately \$120,000, less than 1.0 percent of net plant.

There are currently two liens on The Headquarters. TEP has a First Mortgage Indenture to Chase National Bank of New York and a Second Mortgage Indenture to Bank of Montreal. Both mortgage indentures cover all of TEP's utility properties. TEP has applied for a release of The Headquarters from the indentures and expects to receive it at any time. The Company will not have to pay a fee to obtain a release of the building from the indentures.

Impact on Operations

Built in 1966, The Headquarters houses 324 employees in various departments ranging from CEO Administration to Customer Service. Of the 324 employees located at The Headquarters, 71 will be transferred approximately one mile, to the Company's new corporate headquarters located at One South Church, and 253 employees will be relocated approximately 15 miles away, to a facility on East Irvington Road. No employees will be terminated as a result of the sale.

The customer services operations that have been relocated in anticipation of the sale include the Customer Service Call Center, Billing and Debt Resolution staff, and the Company's cashiering functions. The Call Center and Remittance Processing personnel moved to the Company's Irvington Road location in September 2000. The Billing and Debt Resolution staff moved to the Irvington facility in December. The cashiering function and the lobby credit interview function ended in September and November 2000, respectively. Schedule JMR-1 lists all of the departments that will be transferred as a result of the transaction.

The Company asserts that all of the customer service functions currently or formerly provided to customers at the Headquarters will continue to be provided, either at a different location or in a different form. To ensure the sale will have minimal impact on its customers, TEP enacted a Customer Communication Program to keep its customers apprised of the changes that have or will occur. It included the following:

- | | |
|-----------------|--|
| May 8, 2000: | New payment locations were added to the back of the customer bill envelope and continue to appear there. |
| July 3, 2000: | The lobby closure was communicated to the public in a communications program beginning on this date. The communication explained the number and location of new payment locations. |
| July 27, 2000: | KVOA Channel 4 news interview regarding the lobby closure. |
| August 4, 2000: | bill message begins notifying the customers of cashier and business office closing dates. Disconnect notice wording changed to guarantee posting of pay location payments in time to stop collection action. |

- August 7, 2000: Customer Call Center implements procedures to handle transactions formerly required to be handled in person.
- August 29, 2000: Lobby greeters in place through September 29 to inform customers of changes.
- Sept. 6, 2000: In-store signs for Ace Check Cashing locations posted. Also *Arizona Daily Star* news article regarding lobby closure.
- October 2, 2000: Three additional guards added to greet customers in parking lot and direct them to new payment locations, hand out maps.

TEP has also stated that as a result of the Company's efforts to improve the adjacency of its corporate service to its operating units, transactions for which TEP formerly required the customer to come to the headquarters location are now handled by phone. Further, customers now benefit from additional locations and options for paying their bills.

Conclusion

Staff believes that, from a technical and operational standpoint, the customers of TEP will not be adversely affected by the proposed sale of the Headquarters. Staff also believes that TEP has taken appropriate measures to ensure that its customers are aware of the changes in customer services locations. TEP also added additional payment locations and the option of handling any type of inquiry with a phone call to its customer services.

Staff believes that after all of TEP's employees that are currently located at the Headquarters have been transferred to a new location, the Headquarters will no longer be necessary and useful in TEP's performance of its duties to the public.

Staff further believes that the proposed transaction is consistent with sound financial practices, and recommends approval without a hearing.

Departments That Will Be or Have Been Transferred

<u>Department</u>	<u>Number of Personnel</u>
CEO Administration	3
Legal Administration	3
Legal Administration	7
Strategic Planning & Business Development	1
Business Planning	2
Personnel Administration	5
Compensation & Benefits	3
Communication/Community	6
Corporate Relations and Communications	7
CFO Administration	2
Finance	5
Financial Planning & Analysis	7
FIRST & Budgeting	8
Investor Relations	5
Environmental Services	4
Consultants	3
Customer Service	59
Remittance Processing	11
Credit/Closing Bills	20
CIS Administration	4
Direct Access Servicing	3
Billing Group	11
Controller Administration	2
Customer Accounting & Energy Settlements	6
Payroll	3
Accounts Payable	5
Corporate Accounting	25
Information Systems Operations	78
Organizational Development	1
Rates/Economic Services	8
Residential Marketing	11
Commercial Marketing	6
Total	324